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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Interest Rate Competition . . .

Sometimes lost amid the discussions in the United States about what high interest rates are doing to the U.S. economy is their impact abroad. These effects have not only been widespread but profound as well. U.S. financial assets continue to enjoy a substantial real interest rate advantage over those denominated in most other currencies, drawing in a flood of short-term investment funds from elsewhere (see table). French interest rates are the principal exception. Last week the real interest rate on three-month eurofranc deposits was 9.3 per cent, compared with an 8.4 per cent real rate on three-month eurodollar deposits. This reflects France's recent moves to protect the franc against downward pressures created by expansive economic policies. Italy, too, has retained its long-time high interest rate policy to encourage domestic investment.

Country	3-Month Eurocurrency Rate (as of 4/21/82)	—	Most Recent 12-Month Percent Change In CPI	=	Real Interest Rate
United States	15.1		6.7		8.4
United Kingdom	13.8		11.0		2.8
France	23.8		14.5		9.3
Japan	7.1		3.1		4.0
Switzerland	5.0		4.8		0.2
West Germany	8.9		5.3		3.6
Italy	25.0		16.5		8.5

Eurocurrency interest rates are high in response to the strength of the dollar and lofty eurodollar interest rates as the developed countries attempt to defend their currency exchange rates. Last month, for example, in an attempt to contain a decline in the French franc, three-month eurofranc deposit rates rose from 16.75 per cent on March 15 to 24.25 per cent on April 1. By last week this rate had declined to the 22 per cent range. This kind of wide ranging and rapid fluctuation has been characteristic of most eurocurrency rates as these countries struggle to adjust to U.S. dollar interest rate changes.

. . . May Be Easing

Recently, however, a few countries have begun to change their monetary policies under increasing domestic pressures generated over the past year or more by slow growth—recession, in some cases—and skyrocketing unemployment rates resulting from their restrictive monetary policies. The Swiss and German central banks cut their base rates in mid-March reflecting domestic economic conditions. Relatively low inflation rates in these two countries in an environment of low growth and high unemployment have permitted a mild relaxation in monetary policy. The Swiss National Bank cut its discount rate from six to 5.5 per cent while the Bundesbank reduced its special Lombard rate from 10.0 to 9.5 per cent. These cuts were reflected across the spectrum of mark and Swiss franc interest rates.

For example, the three-month euroswiss deposit rate fell from 6.6 per cent in mid-March to five per cent last week and the three-month euromark deposit rate fell from 9.5 per cent to 8.9 per cent in the same period. At the longer end of the market, German and Swiss government bond yields fell as well. Both countries have intervened in the foreign exchange markets to support their currencies against the short-term effects of these interest rate moves.

Exchange Rates Are Volatile . . .

As might be expected, the rapid and varied changes in interest rates over the past month have been reflected in volatile and unstable foreign exchange markets. The strong performance of U.S. interest rates remains the principal short-run determinant of the dollar. On a trade-weighted basis the dollar appreciated by 2½ per cent between mid-March and mid-April. This surging strength was apparent in the spot exchange rate for the dollar against the other major trading currencies.

The German mark fell by over two per cent against the dollar in the last month before making a small recovery last week, thus ending down about one per cent from one month ago. The Swiss franc has fallen by more than four per cent in the last month in response to the cuts in their interest rates. The

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greater fall of the Swiss franc compared with the mark resulted from moves by the central bank to inject liquidity into the economy and from policies aimed at adjusting the exchange rate with the mark in order to improve export trade competitiveness. The French franc declined 2¾ per cent against the dollar over the past month, reflecting continuing concern about government economic policies and high rates of inflation—notwithstanding substantial intervention in the exchange markets, sharply higher interest rates and a tightening of exchange rate controls on March 25. The Italian lira weakened against the dollar by over three per cent in the last month, as well.

Despite heavy intervention by the Bank of Japan, the Japanese yen remains substantially undervalued against the dollar. It fell from 240 to a two-year low of 248 to the dollar, a drop of almost 3½ per cent, between mid-March and mid-April before recovering to 242 to the dollar last week. Interest rate differentials have played a principal role in the weakness of the yen as the Japanese government has pursued a policy of low domestic interest rates. The Ministry of Finance has also taken a series of steps to control the outflow of capital from Japan.

The British pound fell by almost 2¼ per cent, hitting a 4½-year low against the dollar on April 6 ($1.75 to the pound) in spite of high sterling interest rates. Since then it has recovered marginally. Although the pound had been falling in recent months, the Falkland Islands crisis has added to the pound's difficulties.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/14/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.603	+ .943	+ 6.098
Loans to Depository Inst.	1.337	– .142	+ .195
Float	3.480	+ .453	– .030
Total Reserve Bank Credit	148.641	+ 1.176	+ 5.336
Treasury Deposits with Federal Reserve Banks	3.626	– .312	+ .593
Currency Outside Banks	128.342	+ 1.444	+ 6.731
Member Bank Reserves:			
Required	38.389	+ .220	– 1.338
Excess (Deficiency)	.266	– .060	– .135
Total Reserves Held	38.655	+ .160	– 1.473
Net Borrowed Reserves	.917	– .070	+ .325
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.760	– 1.072	– 8.411

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		452.5	+ 4.4‡	+ 4.9‡
M2	(March '82)	1,864.3	+ 9.2	+ 9.6
M3	(March '82)	2,235.4	+ 8.7	+ 10.5
L	(December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 4/23/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.15%	12.33%	12.14%
* Federal Agencies	13.55	13.95	14.03
* Project Notes—Taxfree (46% Taxable Equivalent)	13.43	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.05	14.10	14.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.75%	May	14.00%
15- 29 days	13.75	Jun.	13.80
30- 59 days	13.75	Jul.	13.65
60- 89 days	13.63	Aug.	13.55
90-179 days	13.50	Sep.	13.35
180-239 days	13.00	Oct.	13.20
240-270 days	13.00		

‡Industrial Paper—Prime			
30- 89 days	14.00%	†Federal Funds Effective Rate	14.65%
90-120 days	13.75		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82n	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82n	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82n	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82n	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Mar '82	– 1.2%	– 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '82	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force†	Mar '82	9.0%	8.8%	7.3%
Personal Income*	Mar '82n	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100)†	Feb '82	124.9	125.3	134.2
Industrial Production Index (1967=100) †	Mar '82	141.2	142.3	152.1
Net Change in Consumer Installment Credit†	Feb '82	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance †	Feb '82	–$ 0.39	–$ 4.09	–$ 2.13
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Feb '82	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories†	Feb '82	$ 509.0	$ 511.1	$ 484.1
Total Business Sales†	Feb '82	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

. . . Reflecting Uncertainty

The erratic state of the foreign exchange markets again is causing concern about the viability of the European Monetary System (EMS). As each of the member countries attempts to adjust its interest and foreign exchange rates to the realities of the international financial markets, the wide discrepancies in economic performance, particularly inflation rates, intensify pressures on the system. Hence, the prospects for another readjustment of currency parities become increasingly likely. Indeed, the EMS, itself, could disintegrate if a measure of stability does not return to the marketplace.

Further, the dispute between Argentina and Great Britain has contributed to global economic uncertainty and political instability which, in addition to unsettling global financial markets, has given a temporary fillip to the price of gold. Gold prices rose over 17 per cent between mid-March and mid-April to $366 per ounce before easing; they now stand 11 per cent above mid-March levels.

The rest of the world is eagerly watching the ongoing debate about the U.S. budget deficit and its impact on U.S. interest rates. The necessity of sustaining high domestic and euromarket interest rates in order to prevent huge capital outflows, falling exchange rates and rising import costs has taken a major toll of the other developed nations in terms of low growth, unemployment and rising government deficits. All nations are looking forward expectantly to the United States to lead the way back to economic recovery and stability. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/7/82)	132,026	– 1,161	+22,804
New York City (4/7/82)	33,515	+ 647	+ 6,099
Commercial Paper (4/7/82)	168,082	+ 1,944	+35,560

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/7/82)	204,370	+ 1,797	+32,755
New York City (4/7/82)	57,217	+ 656	+ 6,894

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/7/82)	479,326	+ 2,807	+54,086
New York City (4/7/82)	111,256	– 118	+11,349

Financial Markets

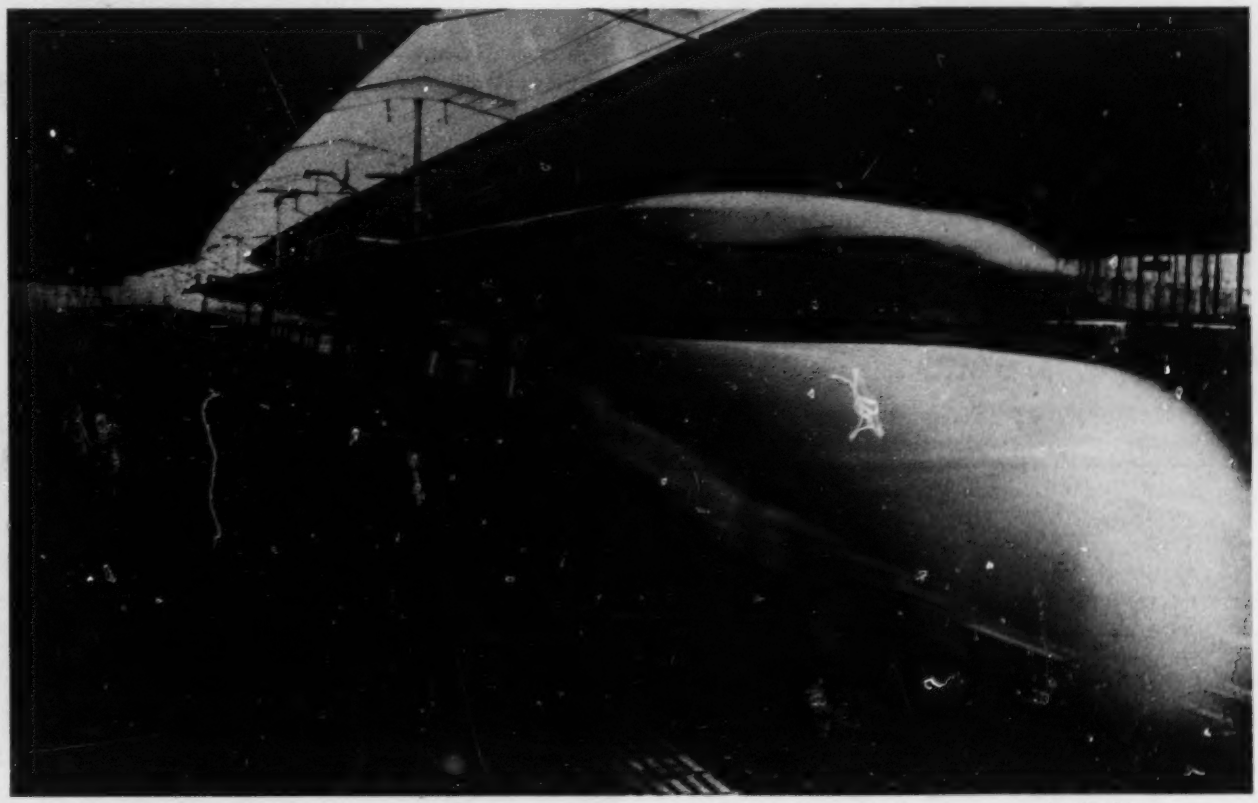
	Friday 4/23/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.56%	– .79	– 1.44
180-Day Bills†	12.96	– 1.02	– .97
Longest Bills†	13.42	– .71	+ .17
Recent Issues:			
13⅞s 4/30/84 (When Issued)	13.83	NA	
14s 3/31/86	13.82	– .26	
14⅝s 2/15/92	13.60	– .18	
14s 11/15/11	13.07	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (4/22/82)	12.29%	– .25	+ 1.49
Blue List Total ($ Million)	$ 756	+ $ 48	– $109
30-Day Visible Supply ($ Million)	$2,570	+ $538	+ $318
Total	$3,326	+ $586	+ $209
Corporates:			
Moody's Aa Composite (4/22/82)	14.79%	– .10	+ .20
30-Day Visible Supply ($ Million) ‡	$1,138	– $710	NA
Stocks:			
Dow-Jones Averages:			
Industrials	862.16	+ 18.74	– 158.19
Transportation	345.61	– .96	– 96.19
Utilities	114.59	+ 2.32	+ 8.12
65 Stocks	337.77	+ 4.80	– 56.39
Standard and Poor's 500 Stocks	118.64	+ 1.83	– 16.50
N.Y.S.E. Composite Index	68.25	+ .99	– 9.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	61,528	+13,090	+ 2,140

* 46% Taxable equivalent 22.76%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/23/82	Week Ago
Overnight	15.00%	15.75%
1 month	14.88	15.50
3 month	14.88	15.50
6 month	14.88	15.50
1 year	14.63	15.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.85

FOREIGN EXCHANGE SPOT RATES New York Opening (4/23/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02206	45.33
Canada	.8167	1.2245
Denmark	.1229	8.1350
France	.1597	6.2600
Germany	.4169	2.3985
Italy	.0007563	1322.20
Japan	.004118	242.85
Mexico	.02165	46.19
Netherlands	.3757	2.6615
Switzerland	.5070	1.9723
U.K.	1.7712	.5646



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